

Message Text

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ACTION ARA-10

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 8181

INFO TREASURY WASHDC

AMEMBASSY PARIS

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E.O. 11652: N/A

TAGS: EFIN MX

SUBJ: TREASURY SECRETARY DEFENDS FOREIGN BORROWING.

1. SUMMARY: TREASURY SECRETARY LOPEZ-PORTILLO STRONGLY DEFENDED GOM'S EXTERNAL BORROWING ON GROUNDS THAT IT NECESSARY TO MAINTAIN ECONOMIC GROWTH, THAT DOMESTIC TAX BURDEN COULD NOT BE INCREASED FURTHER, AND THAT MEXICO STILL HAS CAPACITY TO SERVICE ITS DEBT. PRESS BRIEFING FOLLOWED MEETING WITH PRESIDENT WHICH APPARENTLY FOCUSED ON THIS ISSUE. LACK OF ANY STATEMENTS TO CONTRARY INDICATES THAT NO NEW ECONOMIC POLICY MEASURES ARE CONTEMPLATED. LOPEZ-PORTILLO SAID PUBLIC SECTOR EXTERNAL DEBT WITH MATURITY OVER ONE YEAR WAS \$7,981 MILLION AT END-1974. END SUMMARY.

2. BEGIN UNCLASSIFIED. MEXICO'S GROWING EXTERNAL DEBT HAS BEEN SUBJECT OF INCREASING CRITICISM ON BOTH POLITICAL AND ECONOMIC GROUNDS. POLITICAL CRITICISM SEES THIS AS GROWING DEPENDENCE ON FOREIGNERS WHEREAS ECONOMIC ARGUMENTS FOCUS ON RAPID INCREASE IN EXTERNAL DEBT AND HIGH COST
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OF SERVICING THIS DEBT. ECONOMISTS HAVE ALSO AGRUED IN

OFFICIAL OR SEMI-OFFICIAL JOURNALS THAT CURRENT EXCHANGE RATE OVERVALUES FOREIGN CAPITAL, AND THAT DOMESTIC SAVINGS SHOULD BE INCREASED AS ALTERNATIVE TO FOREIGN BORROWING.

3. TREASURY SECRETARY LOPEZ-PORTILLO HAD MEETING WITH PRESIDENT ON JUNE 6 WHICH APPARENTLY FOCUSED ON EXTERNAL INDEBTEDNESS OF PUBLIC SECTOR. IN LENGTHY PRESS BRIEFING FOLLOWING MEETING LOPEZ-PORTILLO STRONGLY DEFENDED EXTERNAL BORROWING. HE NOTED THAT WORLD ECONOMY HAD CHANGED DRASTICALLY SINCE 1970, AND EXTERNAL BORROWING HAD PERMITTED MEXICO TO AVOID RECESSION AND HUNGER IN SPITE OF WORLD INFLATION. HE EMPHASIZED THAT EXTERNAL BORROWING WAS BEING USED TO PROMOTE ECONOMIC GROWTH. HE DENIED THAT EXTERNAL DEBT HAD AFFECTED MEXICO'S INDEPENDENCE CITING MEXICO'S THIRD WORLD EFFORTS AND THE CHARTER AS PROOF.

4. WHILE ADMITTING THAT EXTERNAL DEBT WITH MATURITY OVER ONE YEAR HAD INCREASED FROM 9.7 PERCENT OF GNP IN 1970 TO 12.3 PERCENT

IN 1974, HE SAID THAT DEBT SERVICE PAYMENTS HAD DECLINED FROM 26.1 PERCENT OF CURRENT ACCOUNT EARNINGS IN 1970 TO 19.1 PERCENT IN 1974. THIS WAS POSSIBLE DUE TO A LENGTHENING OF AVERAGE MATURITY IN 1973 AND 1974 WHEN MEXICO WAS ABLE TO GET 10-YEAR PLUS MONEY FROM PRIVATE CAPITAL MARKETS. IN RESPONSE TO QUERY, HE SAID AVERAGE MATURITY WAS NOW SEVEN OR EIGHT YEARS.

5. IF ADDITIONAL RESOURCES ARE NEEDED, THEY MUST COME FROM WITHIN OR OUTSIDE THE SYSTEM, SAID LOPEZ-PORTILLO, ADDING THAT IN LIGHT OF THE SUBSTANTIAL TAX INCREASES LAST YEAR, A FURTHER EFFORT TO BOOST REVENUES IN REAL TERMS WOULD NOT BE POSSIBLE THIS YEAR. HE NOTED THAT TAX REVENUES SHOULD INCREASE TWO PERCENTAGE POINTS OF GDP FROM 1974 TO 1975 WHEREAS FROM 1953 TO 1970 TOTAL INCREASE WAS ONLY ONE-HALF OF ONE PERCENTAGE POINT.

6. OTHER SUBJECTS TOUCHED ON BY LOPEZ-PORTILLO INCLUDED THE CONTROVERSIAL 15 PERCENT TAX ON FIRST CLASS RESTAURANTS. SECRETARY INDICATED THAT THIS MIGHT BE LOWERED IF RESTAURANTEURS WOULD LOWER THEIR PRICES IN ATTEMPT TO LIMITED OFFICIAL USE

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BOOST TOURISM. HE DENIED THAT DECLINE IN TOURISM WAS DUE TO THIS TAX. LOPEZ-PORTILLO ALSO DENIED ANY INTENTION OR NEED TO NATIONALIZE PRIVATE BANKS. HE SAID THAT NEW BORROWING IN 1975 HAS THUS FAR AMOUNTED TO ABOUT \$1.2 BILLION. HE WAS OPTIMISTIC ON LONGER-TERM OUTLOOK BECAUSE OF OIL. END UNCLASSIFIED.

7. LOPEZ-PORTILLO DISCUSSED ONLY MEDIUM AND LONG-TERM

DEBT, IGNORING THE PUBLIC SECTOR'S SHORT-TERM FOREIGN DEBT WHICH WE ESTIMATE AT BETWEEN \$2 AND \$2.5 BILLION AT END-1974. HE ALSO IGNORED PRIVATE SECTOR'S EXTERNAL DEBT WHICH IS BELIEVED TO HAVE TOTALED FROM \$5 TO \$7 BILLION AT END-1974. OUR ESTIMATE FOR CURRENT ACCOUNT DEFICIT FOR 1975 WITH WHICH GOM ECONOMISTS PRIVATELY CONCUR, IS NOW ABOUT \$3 BILLION, 400 MILLION ABOVE 1974 DEFICIT, THEREBY REQUIRING A FURTHER SUBSTANTIAL INCREASE IN EXTERNAL DEBT. LOPEZ-PORTILLO'S STRONG DEFENSE OF FOREIGN BORROWING WOULD IMPLY THAT NO NEW POLICIES TO REDUCE CURRENT ACCOUNT DEFICIT ARE UNDER ACTIVE CONSIDERATION.
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